

EVIDENCE SUBMITTED TO THE HOUSE OF COMMONS PUBLIC ACCOUNTS COMMITTEE ON 22 MAY 2012

1. My name is Eddie Hutchinson and I was employed by 2 companies (Working Links from 2007 to 2010, and A4e Limited from 2010 to 2011,) which operate in the welfare-to-work sector as contractors to the Department for Work and Pensions (DWP) and other funding agencies.
2. I am a CIPFA accountant, having qualified in 1983, and I also hold a Master of Science degree in Audit Management and Consultancy. I have performed senior roles in finance and internal audit for organisations in both the public and private sectors for the past 30 years.
3. Whilst I headed the internal audit functions for the above-named companies, the focus of my work and that of the audit teams was regularly disrupted by the requirement to investigate recurring incidents of fraud and irregularities that were perpetrated in each of these entities, though this was not the primary objective of my job role with these organisations.
4. Furthermore, within each company there were occasions in which I encountered unethical behaviour or wrong-doing that fell way below standards that should be expected of organisations funded by significant sums from the public purse, which they primarily received under a variety of contracts undertaken for the main purpose of enabling unemployed jobseekers to be brought back into work.
5. Another feature of working for each organisation was the lack of effective corporate governance and risk management, poor transparency, weak management, inadequate control systems and a prevailing environment or culture that allowed fraud and unethical practices to be committed in many geographical locations throughout the UK.

A4e (Action for Employment) Ltd

6. I was appointed to the position of Head of Audit by A4e in October 2010, reporting directly to the Head of Group Risk, Sarah Aston, who later was re-designated with the job title of Group Assurance Director. This was unannounced by the company, and nor was it communicated by my line manager, and I only became aware of the new job title on receiving subsequent emails from my manager, which showed the changed job title beneath her name.
7. When I asked my line manager if congratulations were in order, she replied that the owner of the company, Emma Harrison, did not like the word 'risk' being used (despite risk management being a fundamental requirement of any entity that operated in this sector), because of what she perceived as being its negative connotations.
8. Similarly, my manager reported to the Executive Director of Finance, Mark Stanley, whom I was never introduced to throughout my tenure with A4e, albeit that a Head of Audit would usually have a working relationship with the most senior finance manager in the company.

9. This became a source of increasing frustration to me in carrying out my job role with A4e, and when I asked my line manager about Mark Stanley, his responsibilities and what he was like, she responded by saying that Mark had no time whatsoever for risk management, but that he had 'other good skill sets', as if this justified this viewpoint.
10. Each of these conversations was to prove an early indication of the sort of difficulties I would encounter when endeavouring to perform my independent and professional role as Head of Audit to A4e. However, I could not possibly have anticipated the complete absence of corporate governance and accountability that prevailed within the organisation, or the practical restraints that hindered me in the effective delivery of my job role.
11. The key objectives of carrying out a head of internal audit role include objectively reviewing and reporting upon the effectiveness of risk management, governance and internal controls, in order to provide effective assurance to management of the organisation, and its stakeholders and customers. A critical component of these arrangements is the existence of a robust audit committee that oversees this process and acts as the guardian of corporate governance within the entity.
12. I therefore enquired about A4e's Audit Committee, its composition, the frequency of meetings and its specific role. I was staggered to learn that there was a Quality and Audit Committee in existence, but that this did not operate at all in the way required by corporate governance and, in effect, it often acted as no more than a 'talking shop' that met from time to time, with attendance by senior management apparently optional.
13. I confirmed that this was indeed the case when I perused the minutes of previous Quality and Audit Committee meetings. In the minutes of one such meeting, when various reports were discussed including a strategic risk register for the company, one senior executive had commented that this needed to be more 'touchy feely'. In my professional opinion, this cannot possibly be the case if an organisation is serious about implementing effective risk management arrangements and sound governance.
14. I also found that there were huge barriers to me successfully delivering the audit role, including excessive interference by my line manager who, despite my knowledge, expertise and high standing in the profession, tightly controlled my work, amended audit reports that I prepared with members of the audit team, excluded me from audit committee meetings, and provided me with little or no information on decisions arising from A4e's senior management team meetings.
15. I was tasked with managing a team of 7 auditors dispersed throughout the UK, but only learnt some months after commencing my role that there were previously 4 people who managed the auditors, including my line manager (in her previous role) and 3 other managers, whereas now I had sole responsibility for all 7 audit staff.
16. A further problem was that the programme of work set out for the audit team was no more than a series of compliance-type reviews that did not in any shape reflect the modern risk-based role for internal audit. Many of these reviews had been ongoing for several months prior to my arrival as Head of Audit and, with the exception of some finance audits, where arrangements were more established, were extremely difficult to progress due to little appetite or support from A4e's senior managers.

17. More worryingly, it quickly became evident that the incidence of frauds and irregularities was a major problem for the company. Within weeks of my commencement as A4e's Head of Audit, an ever-increasing volume of frauds came to my attention, often via a particular direct report of mine in the audit team, who often investigated these matters and who had previously worked for the Police.
18. On an inordinate amount of occasions, my direct report would copy me in on emails regarding potential frauds arising in a number of A4e offices throughout the UK, including some days in which 2 or 3 separate instances occurred that required investigation. In addition, he from time to time informed me of his suspicions or concerns regarding specific managers and the poor procedures that they followed.
19. It was in these early weeks that my attention was drawn to a catalogue of frauds that had been carried out within A4e, including reference to a previous review of fraud among some of A4e's top recruiters in several offices of the company. The more I learnt, the more astonished I became that my line manager had made no mention of these previous occurrences or the extent of fraud within A4e's operations either during my induction period, or in subsequent one-to-one meetings with her in the weeks after I commenced as A4e Head of Audit.
20. The type of frauds perpetrated by operational staff within A4e usually related specifically to the falsification of job outcome evidence on a number of legacy welfare-to-work contracts, such as the Prime Contract undertaken on behalf of the DWP. The objective of this contract was to get long term unemployed back into sustained employment positions in some of the worst unemployment black spots in the country in which specific employment zones had been established.
21. Such contracts from memory attracted a payment of around £1,300 to A4e for each jobseeker placed into work and this was followed by a payment of around £3,000 to A4e once this placement became a sustained job. The fraud carried out was usually that job outcome evidence required to be completed under the contract would be fabricated by the falsifying of employers signatures by some A4e staff involved, which meant that erroneous jobs were recorded and targets for job outcomes apparently met. This then secured a bonus payment for the staff involved under A4e's incentive bonus system.
22. Whilst bonus schemes were set up to incentivise efforts to obtain suitable employment for clients, and this encouraged commitment from responsible employees to secure jobs for clients, it also drove inappropriate behaviour on behalf of those people who were prepared to engage in malpractice for personal gain where no such job existed. In some instances, this was instigated by groups of recruiters who would subsequently share the bonus payments within a group or pool of staff that engaged in this activity.
23. The existence of such fraud was allowed to take place primarily due to the inadequacy of management control procedures, including the absence of any meaningful supervisory checking routines or processes. It is also possible that the emphasis on targets and the achievement of job outcome performance, including pressure exerted by more 'forceful' senior managers and the prevailing cultures within a number of locations, may have contributed to the perpetration of such frauds on some occasions.

24. This exposed A4e to the possibility of financial loss where these frauds were identified, and sanctions imposed by the DWP including penalties and repayments, and at worst it could potentially result in the removal of contracts from the contracting organisation (i.e. A4e) as well as a severe impact on the reputation of the organisation.
25. The practical implications for the Ae4 audit team that I managed were that special investigations, potential frauds and other matters including issues highlighted through employee whistle-blowing disclosures, inevitably disrupted planned audit work within the team, due to the resources required in order to respond to and manage each occurrence, to successfully investigate the matter and then formally report on the outcome of each fraud investigation.
26. Within weeks of my appointment as Head of Audit to A4e in October 2010, I received a 'glimpse' of what was to come when I was personally required by my manager to investigate fraud allegations in the Newcastle-upon-Tyne office in the North East. This particular fraud related specifically to the use of an 'Interchangeable' office stamp, which was deployed to endorse job outcome evidence in order to provide confirmation of the placement of jobseekers with local companies.
27. The use of such stamps had in fact been outlawed by A4e following previous misuse within A4e offices in 2009, resulting in an instruction being issued by the Commercial & Compliance Manager on the process to be followed when an employer was unable to provide acceptable evidence to support a job outcome claim. This allowed managers to purchase a company stamp on behalf of an employer and to then 'gift' the stamp to that company under a covering letter. The instruction stressed that under no circumstances should stamps be provided for employers and then retained by A4e.
28. Despite this precise instruction being issued, such a stamp had evidently been procured at the request of the manager in Newcastle and then issued to the team to enable job outcome evidence to be stamped by A4e, rather than the employer, to confirm that jobseekers had secured jobs.
29. My investigation confirmed the facts surrounding the stamp and, in my investigation report, I specifically recommended that action should be considered with regard to the Newcastle manager's actions, which flouted approved procedures. Disappointingly, no action was taken by senior management to deal with this situation, however, despite the clarity of my report findings and recommendations.
30. Such was the lack of action by senior management that this same issue was to occur again in another A4e office location (Norwich) just a couple of months later, when the audit team was again asked to investigate this malpractice.
31. The increasing volume of such fraud investigations in A4e in the first quarter of 2011 meant that my own focus and time, and the finite resources of my direct report's time and that of other staff involved, were being continually diverted away from the more business-critical A4e priorities, plans and projects at the time (i.e. our 'day job'), including pressing preparations for the new Work Programme contract that was replacing the former Flexible New Deal contract provision.

32. It became almost a source of embarrassment to me as A4e Head of Audit that the monthly 'board contributions' report I had to prepare for my line manager became increasingly focused on fraud investigations, which was to the detriment of the core planned audit work that should have been undertaken by my team and reported upon.
33. This situation worsened significantly in February 2011 with our increasing involvement in investigating and reporting upon a major fraud carried out in A4e's Thames Valley region, relating to malpractice in locations including Slough and Reading on the DWP's ESF (European Social Fund) contract. My recollection is that this indicated a total claim value at risk on this contract at the time amounting to £125,800 (based on 74 job outcomes at £1,700 per outcome claimed).
34. It was difficult to be exact regarding the actual amount at risk on this contract as this was, in effect, a 'moving target'. Ongoing checks were being conducted and we had assistance from 2 other teams within A4e, the central administration unit and district support team, which meant that in internal audit we did not have direct control over the figures calculated. In addition, operational management were dealing with the staff involved, some of whom were under suspension from work, some of whom had resigned, and there were others who were being dealt with and faced potential disciplinary action as the investigation progressed.
35. In overall terms, however, suffice to say that the situation was extremely unsatisfactory. It was clear that management supervision and controls at these locations were extremely poor, and that some of these issues as well as the prevailing culture within the organisation had existed for some considerable time, including systemic fraud that had been perpetrated and continued to be undertaken within the company's operations.
36. I firmly believe that the attention of A4e's top management should have been focused on dealing more decisively with the underlying issues and unethical culture including addressing and eradicating any instances of unacceptable behaviour within the company.
37. I am also of the opinion that the matter should have been directly referred to the Police to investigate at a very early juncture - i.e. as soon as it was evident that there were extensive irregularities - and that A4e should have sent out a clear message demonstrating zero tolerance towards any inappropriate or fraudulent behaviour by its employees.
38. Further fraud came to our attention, again in February 2011, in relation to job outcome evidence on the New Deal for Disabled People contract administered from the A4e office in Glasgow. A number of job outcomes were in question and in one case an employee involved simply left a letter of resignation on the manager's desk along with an explanation that she had falsified the evidence and confirming that one of the jobs did not exist. The letter also contained £200 that she had misappropriated from a 'back to work fund'. I remember making a note on the correspondence I had at this time documenting how this was evidently a regular occurrence i.e. an individual commits a fraud or frauds, gets found out (having taken a calculated risk), accepts the circumstances and then resigns in a bid to pre-empt further action by A4e.

39. In terms of anti-fraud measures etc, it was a requirement of my role and that of other managers in the Assurance team in A4e to review and comment upon various policies and procedures that were being established with great haste to support bids to secure the Work Programme contracts that the Government was introducing.
40. Given my professional background and expertise in areas including Anti-Fraud and Corruption and Whistle-blowing policies, I had a major input into proposed changes to such documents. It was clear to me that policies and processes required strengthening considerably in these instances. In my opinion, the over-arching governance arrangements in particular needed to be more robust, especially in the light of ongoing frauds and irregularities that impacted the organisation and its reputation.
41. It was therefore extremely disappointing, for example, when I made clear recommendations designed to strengthen corporate governance and tighten internal controls, which essentially would have increased the level of protection afforded to A4e and its stakeholders, that these important proposals were essentially ignored or rejected.
42. To add insult to injury, my line manager communicated the outcome indirectly through a clerical assistant from the Policy team who had typed the revised document, with the comment that my manager agreed with my recommendations but that these would be added to the 'back office' procedure rather than the policies – meaning in effect that they would not be adopted. In actual fact, the amendments I put forward did not relate to back office processes but concerned the highly significant role required of the Audit Committee Chair in these matters, in recognition of corporate governance requirements.
43. I should not have been surprised by this situation, however, as A4e seemed generally reluctant in my view to embrace best practice in these affairs. An example of this weakness was the euphemistic naming of the whistle-blowing policy and process (which all responsible organisations make available to their employees, in line with governance requirements and the statutory protection afforded by the Public Interest Disclosure Act) as the A4e 'Confidential Reporting' policy.
44. A4e did have arrangements in place through an organisation called Public Concern at Work. This allowed staff to raise concerns in confidence and with anonymity if they so wished via a dedicated telephone line. In practice, few enquiries were ever channelled through this source and the use of this facility was quite minimal. In addition, access to the A4e Confidential Reporting policy was not well publicised; A4 size posters being barely visible in A4e offices that I visited, and awareness of the availability of the whistle-blowing process was quite poor in many locations.
45. Whistle-blowing matters were occasionally brought to my attention after messages were left by employees on a dedicated telephone held within the head office in Queen Street, Sheffield, including two situations in which I was asked to investigate allegations from employees who had resigned from their positions within A4e after complaining of heavy workloads, stress and inappropriate behaviour from colleagues.

46. I was also asked to investigate concerns reported by aggrieved A4e staff working for the Careers Information Advice Service within Her Majesty's Prison in Stockton, which related to irregularities in performance monitoring information, profiling and the non-availability of funding units that were conveyed to them by their line manager in the A4e Justice Division, leading to poor morale among staff.
47. Another fraud investigated by my team related to job outcomes at Woolwich and Merton regarding the process for obtaining evidence on a contract called Gateway to Work, and this highlighted a number of questions and shortcomings in procedures in respect of the validation and recording of job outcomes on that contract. An employee investigated in this review had resigned from A4e during a previous investigation and was unavailable for interview in the subsequent investigation (a recurring theme in many investigations that we completed).
48. Many weaknesses were identified on the Gateway to Work contract process carried out by A4e, including the following:
- the fact that employers were not required to sign Job Outcome evidence forms (FO54s) to confirm that clients were working 16 hours per week, or that the job was expected to last a minimum of 13 weeks;
 - the non-removal of claims that had not been validated by A4e;
 - the risk to A4e reputation where contact was made by teams within the company in an effort to validate outcomes that should not have been claimed in the first place;
 - a lack of understanding by employees signing off the Job Outcome documents;
 - poor accountability at manager level for the accuracy, completeness and validity of claims, and
 - a failure to carry out sample checks on relevant documentation and job evidence.
49. Whilst the Gateway to Work contract provision may not have been the most significant activity undertaken by A4e in terms of contract value, it was probably indicative of the sort of internal control issues that prevailed within A4e's operations.
50. It also became increasingly evident to me on a number of occasions that many A4e employees appeared fearful of raising concerns in the management of contracts administered by the company in case this left them vulnerable and threatened their job security. Whilst outwardly projecting a 'softly, softly' approach, A4e had the reputation of being a 'hire and fire' company.
51. This was certainly the case within the A4e Risk and Audit team itself, where managers had previously been forced out of the organisation prior to my appointment as Head of Audit. This was typified by my line manager's own style of management and the pressure exerted on me to dispense with individuals from the audit team. She lacked interpersonal skills and in particular communicated very poorly with managers and colleagues alike but had no hesitation in giving out instructions to force people out of the organisation.

52. A classic example of this approach was illustrated in relation to one of my direct reports, a Senior Auditor that Ms Aston had indeed appointed herself several months prior to my commencement as Head of Audit.
53. The person concerned was a decent individual who had clearly been struggling in his job role for some time before coming under my supervision. He eventually took ill due to stress and went on sickness absence from work but within days of this my manager instructed me to remove his office equipment including his laptop computer and mobile phone. I knew that this was unethical and took advice from a HR Manager who confirmed that this action was inadvisable and could put the company at risk of litigation.
54. However, the laptop was transferred by Ms Aston to a consultant from Deloitte, the company from which Ms Aston herself had joined A4e, so that he could use this during an IT security assignment he was performing for the company.
55. On the A4e intranet, short biographies were provided of staff within the audit team including the employee on sick leave, who had been appointed by my line manager and was described as being a fully-qualified member of the Institute of Internal Auditors. However, it was viewed within the team that this may not be the case and that this had been misrepresented on A4e's framework system.
56. Ms Aston also exerted considerable pressure on me to get rid of another senior member of the internal audit team, who had worked for the organisation for a number of years and who had extensively investigated frauds and irregularities within A4e at locations scattered throughout its UK offices. I refused on principle to do her 'dirty work', however, or to conspire to remove him from his position.
57. Referring back to cases of fraud within the company, I was quite surprised in the early days of my employment with A4e by the wide incidence of 'low level' fraud that was being brought to our attention. A good example was the numbers of emails received by my direct report and I concerning issues regarding petty cash.
58. When I first started with A4e, I noticed for instance one report on file from my team that highlighted malpractice in a London office in which petty cash had been regularly misused by a manager for their own benefit including expenditure on personal travel, meals and other non-business items. Spend by this one individual alone for personal usage was estimated at £5,000, much of it evidently having been obtained by misusing blank taxi receipts to draw cash from A4e petty cash holdings.
59. I also recall that cleaning teams had been recruited that were owned by the husband of that manager without following due processes regarding tenders for that type of work to be undertaken, and that this 'contract' apparently extended to other London offices in relation to the company concerned.
60. Whilst these examples were of low monetary value i.e. they may not have been material in relation to A4e's annual spend or turnover, they were nonetheless highly indicative of the type of activity that took place in a number of company locations, which demonstrated a lack of accountability and management supervision in what should really have been an area governed by routine procedures.

61. Towards the end of 2010, I took a call from a manager requesting advice and support as she was working with people regarding the provision of independent living skills under one of the contracts undertaken by A4e. She was mindful of the need to follow proper process and was keen to ensure that funds were properly accounted for. She clearly had received little or no training, support or guidance from senior management before undertaking this position, and I advised her in general on the sort of controls that were needed as a minimum. This was not untypical of the way that A4e operated.
62. I was even more surprised to learn, however, that A4e was also providing a Money Advice service to clients, given the absence of expertise or transparency in some offices in relation to basic office cash handling procedures.
63. One of the last audits I supervised during my employment at A4e was an audit review of Child Care and other support payments. The Senior Auditor carrying out the review performed a data matching exercise using IDEA software and established a match between employee details and those of an individual receiving such payments, which again confirmed the existence of fraud in one of A4e's payment systems. It was my understanding that this was being referred to the Police but after leaving A4e I cannot recall whether this was either referred to, or taken up, by the relevant authorities for prosecution purposes.
64. A further exercise I managed towards the end of my tenure with A4e concerned a follow-up review of an Anti-Fraud Controls Verification Framework that A4e had requested the consultants Deloitte to do, some 2 years previously. The A4e Chief Executive, Andrew Dutton, asked my line manager to arrange for this piece of work to be completed in a number of offices in early 2011, and she instructed me to supervise an exercise by the audit team as an urgent matter. The review gave assurance that some of the control processes recommended by Deloitte were in place, but highlighted the specific risk of fraud occurring in other areas.
65. When A4e hit the headlines in the national press and on television a few months ago, it came as no surprise to me given what I knew about A4e's poor control processes and lack of robust measures to address fraud issues. The extent of suspected fraud and irregularity that continually arose and was reported to my colleague in the audit team on a regular basis was, in my view, indicative of an underlying culture that said it was perfectly acceptable for some staff to behave in this unethical way.
66. The purpose of this practice was clearly to claim for jobs that did not exist by falsifying documents, which should have been completed by employers who had legitimately engaged a jobseeker in paid employment. Sadly, as was shown in many investigations that were undertaken, payment was unscrupulously being obtained from the DWP on behalf of A4e for jobs that did not actually exist. The objective behind this malpractice was simply to receive cash in the form of bonus payments from A4e, despite the fact that those employees who committed this act must have known it to be wrong. This then generated a bonus payment for the employee who perpetrated the fraud and, if their irregularity was discovered, they could resign from their job with A4e in the knowledge that no further action would probably be taken.

67. In many ways it surprises me that an organisation such as A4e should continue to prosper as it has done in the welfare-to work sector, employing over 3,300 people in the UK and globally, given its evident immaturity as an organisation and its lack of effective corporate governance, risk management and controls.
68. Nor does it surprise me that A4e knew about potential fraud and the failures by management to control it for three years, as reported recently in the press. I am, however, surprised that the DWP should receive assurances from A4e that it had not uncovered major issues.
69. In spite of apparent assurances that may have been given by the organisation, my own experience as Head of Audit was that whilst ostensibly stating that it took any allegations of fraudulent or illegal activity seriously, the company's actions did not match that stance. Nor could it be described in any way as taking a 'zero tolerance' approach to these matters.
70. I would also question whether 'significant enhancements' had been introduced by the company following previous fraud that had been carried out some 3 years previously, as reported recently. If this had indeed been the case, I would have found it extremely odd that the numbers of suspected frauds and irregularities should continue to prevail and increase, as was the case at the time of my departure from A4e in 2011.
71. It would be informative to ascertain the actual numbers of such occurrences in recent years, which could easily be obtained and established by reference to the fraud register maintained within the internal audit department. I believe that this would confirm that there were significant numbers of these events arising in the last year or so alone.
72. As stated in the audit report issued in 2009, a conclusion reached was that such activity was not confined to one particular geographical area. This was still the case a couple of years later when I had responsibility for the audit team – in essence, nothing had changed.
73. From my own perspective, when I reported on suspected frauds occurring within the organisation, I received little if anything back by way of management feedback, or assurance that such behaviour was being dealt with appropriately and control failings rectified. Similarly, where I made recommendations to tighten controls, or strengthen policies and procedures, my advice was not heeded. If my concerns had been taken on board, the present situation could have been avoided.
74. Whilst internal audit were fighting fires by carrying out these investigations, similar efforts were also being made by information security management to deal with constant breaches of confidential information, data losses and a failure to protect clients' personal information, that were equally unacceptable.
75. In my professional opinion, the frauds and irregularities that arose within A4e were not confined to particular contracts or locations and were not isolated incidents, but were a direct consequence of the type of behaviour and culture that prevailed within the company and was allowed to continue, and to that end it could be said with some justification that this activity was systemic within A4e operations.

Working Links (Employment) Ltd

76. I started at Working Links (WL) in May 2007 and was employed as Head of Internal Audit until I was made redundant in June 2010.
77. I achieved outstanding performance from the outset with WL and totally modernised the internal audit function, transforming it from a reactive compliance-based unit, which did little more than carry out data accuracy and quality checks on contracts undertaken for the DWP, into a forward-thinking service that focused on significant risks and added value to the entity and its stakeholders.
78. However, fraudulent activity was occurring way before my employment with WL, and featured continuously whilst I was building an effective internal audit function, and it remained a regular and potent threat to the reputation of the organisation right through to the time of my removal from the company in June 2010.
79. For example, it was brought to my attention by finance staff and colleagues in the Brighton area that there had been fraudulent activity in that location for some time, including payments made by a consultant from that office to a landlord using WL funds.
80. I was also aware that there was more malpractice being committed in Brighton, but no matter how hard I tried to address this, I was met with a huge stone wall by management, as one excuse and barrier after another was placed in my way to prevent me from investigating the problem.
81. Fraud and irregularity became so extensive and disruptive to the work of the internal audit team, which only consisted of 2 permanent members of staff (a Senior Auditor and myself), that by May 2008 we were both suffering from exhaustion and stress due to the immense physical demands being placed on us as we chased such incidents at many locations across England, Scotland and Wales.
82. Things got so bad that by Spring 2008 it reached the farcical situation, over a sustained period of time in which we would arrange to carry out work in the Midlands, then be required to hastily divert to Brighton (including flights being booked), only to then be instructed by my line manager to urgently change our plans to Wales, followed quickly by new priorities for coverage in other areas including London and Glasgow.
83. By the end of April 2008, my colleague and I had reached meltdown and we were unable to complete any routine audit work due to constant pressure to investigate alleged or actual fraud, working late hours after normal office hours on many occasions, whilst staying in hotels in locations remote from our home addresses. When I wrote to my line manager and complained about how this was affecting our health and well being, and how stressed we were becoming, he agreed but then commented that he was also stressed himself.
84. In mid-May 2008 I took the courageous step of taking this up directly with the WL Managing Director at the time, Keith Faulkner, emailing him to express my concerns and receiving a swift reply that he took my assertions very seriously.

85. After discussions with my line manager, Clive Pitts, who was the WL Executive Finance Director at the time, I was asked to urgently prepare a briefing note outlining the various incidents of fraud that had occurred and quantifying the financial loss, as well as highlighting the impact of fraudulent activity over the 15-month period up to May 2008, including the huge reputation risk to WL that this entailed
86. I completed a briefing note overnight and Clive Pitts presented this to a meeting of the WL Executive team the next day. The report had such a significant impact that I was instructed to convert this into a report that I would present a month later to the WL Audit Committee on 19 June 2008.
87. The report quantified the losses from 15 separate frauds and irregularities over the previous 15 months at around £250,000 (this being the impact from those events that we were aware of alone i.e. the actual figure would no doubt have been much higher). **A copy of the actual audit report is attached as Appendix A to this submission.**
88. The types of frauds that were perpetrated within WL mirrored those types of occurrences that I have already described in the first half of my statement concerning A4e, primarily relating specifically to welfare-to-work fraud in DWP contracts including Employment Zone, Progress to Work, Private Sector Led New Deal, and DAF contracts.
89. In addition, a number related to financial fraud, including an Administrator in Brent who diverted jobseekers payments (using actual NI numbers for previous clients) to her own son and other individuals totalling around £9,500. This was allowed to be perpetrated due to the abject lack of controls over payment systems and the ease of access that the Administrator had to financial systems and bank account details
90. Perhaps more importantly, the common theme in relation to the DWP contracts was that all of these frauds involved the falsification of job outcome evidence to illegally claim monies from the DWP, together with the false claiming of bonus payments by staff through the company's incentive bonus system.
91. The other similarities to the fraud committed in A4e were the extremely poor control systems in place and the utter absence of any meaningful management controls or supervisory checking routines.
92. These irregularities were not restricted to specific locations but indeed were perpetrated throughout many of the UK offices of WL. In my professional opinion, as was also the case within A4e, this type of fraudulent behaviour perpetrated by WL staff was extensive, it related to cultures that existed within a number of offices, and was also systemic throughout many areas of WL's operations on DWP and other funding agency contracts.
93. It is fair to say that my stock rose within the organisation at this time, coming on the back of the significant strides I had already made in establishing a modern audit function. However, it did not make me a popular figure with everyone in senior management, not least Breege Burke, who a year later became WL Managing Director in succession to Keith Faulkner.

94. For example, after a WL Risk Committee in July 2008, I received a telephone call from my manager, Mr Pitts, who chastised me on the telephone whilst I sat at my desk in Middlesbrough and warned me about my use of 'language' during the meeting, including the incidence of fraud in WL that was 'an epidemic' within its operations. I had referred to this behaviour being endemic within WL operations (which it was on various contracts) but I had not used the word epidemic.
95. I knew immediately where this criticism came from as I had been confronted head-on by Ms Burke during the risk meeting, when she challenged my viewpoint in public and said she had totally disagreed, insisting instead that the bonus system culture drove the right type of behaviour with WL staff. Whilst I would agree that there were some excellent people that worked within the WL operations, there was also a significant element within recruiting staff and management in many locations of the company that engaged in or condoned malpractice of this type.
96. It is informative and it supports my opinion, I believe, when one looks at the crux of the findings in my report to the WL Audit Committee in June 2008. Of all my recommendations in that report to eradicate fraud and strengthen controls within WL, the only one that senior management did not fully accept was my recommendation to overhaul the performance-related bonus system (see paragraph 2.3 at page 2 of the report and my key recommendation 3.2 on page 4 of that same document).
97. Furthermore, it is equally informative in relation to the specific management response of the Chief Operating Officer at pages 6 and 7 of the report, which stated that he would like to include input from me and my team when the current bonus system is reviewed at the end of the year, that this was never actually implemented and, in my view, I was deliberately prevented from having any influence on this situation.
98. I did, however, embark upon a programme of fraud awareness sessions throughout the UK in all main WL office locations (covering over 200 managers) and also devised an e-learning module that all 1400 staff had to complete and acknowledge.
99. Sadly, this did not have a long term or sustained effect and over the next 12 months (and indeed up to the date of my departure from the company in June 2010), fraudulent behaviour remained a serious issue within WL operations.
100. At one of the fraud awareness sessions that I delivered to the WL Executive team, in the head office in Covent Garden, I was accompanied by Frank Nesbitt, a Fraud Investigation expert who has a glowing reputation in this field. Frank also gave a presentation and spoke articulately about the issues that threatened WL's reputation, and would undoubtedly impact on the WL business as a welfare-to-work provider, unless corrective action was taken to address and eradicate such unethical behaviour.
101. Frank's team had been contracted to assist my audit team, and did so at various WL locations, including investigating several frauds and whistle-blowing disclosures. However, rather than embrace his expertise for the benefit of WL and its stakeholders, WL management simply removed him from his assignment with the company. Whilst Clive Pitts carried out the deed, I have no doubt that this was under the express instruction of Breege Burke, who was subsequently to become WL MD.

102. After Keith Faulkner retired as Managing Director to Working Links, Breege Burke succeeded him as MD. I recall expressing my opinion to Clive Pitts around the time that it became known that Ms Burke was being considered for the job. I did not believe at any stage that she was the right person to succeed Mr Faulkner in this role.
103. Breege Burke took every opportunity to undermine my authority and the impact of internal audit reports that I presented to the WL Audit Committee. She even criticised me at the Audit Committee meeting in March 2010, which preceded the company's 10th birthday party, a black tie event in Battersea Park, London.
104. This event clashed with my wife's 50th birthday party, an event that I had organised many months earlier and which, naturally, I had to attend. I was dismayed at this sort of comment in all honesty. I was also horrified at estimates of the cost associated with the WL 10th anniversary party, which apparently was staged at a staggering expense of around £500,000.
105. Fraud continued to thrive within the operations of WL right up to the time of my departure from the organisation in June 2010. On every occasion that I returned to work at WL after a holiday, I would have emails awaiting me from my direct reports that reported the latest frauds that had emerged within the organisation.
106. Keith Faulkner became Non-Executive Chairman of the WL Shareholder Board, although I believed he retired recently from this position. I was so appalled at events in Working Links, including the dismantling of the entire audit team I worked so hard to establish, that I wrote directly to him expressing my concerns, on 1 April 2010. He kept a watching brief on my situation but eventually I was driven out of the organisation. **I attach a copy of my letter, documenting my concerns at events in WL, as Appendix B to this submission.**
107. Furthermore, fraud could never be totally eradicated or even significantly reduced from WL's activities because it was in my professional view systemic, as indeed it was within A4e's operations as well.
108. I felt so strongly about events in WL in 2010 that I penned a whistle-blowing letter to the National Audit Office. However, my solicitor advised strongly against me sending a disclosure and, sadly, this letter was never delivered. **For the record I attach a copy of this document for the Committee's information as Appendix C, which I feel is extremely accurate and damning towards Working Links.**
109. In many ways I feel embarrassed by the extent of fraud and irregular behaviour within these two companies, though my conscience is clear that I did all I could to address this malpractice. This has certainly not, however, been career enhancing in my case.
110. I also view this as a disgraceful misuse of government and taxpayer funding, characterised by unethical behaviour, mismanagement, inadequate corporate governance and risk management, and excessive payments in the form of salaries and bonuses etc paid to those that head up these organisations. In short, I see it as a multi-billion pounds scandal.

111. Whilst many people employed in these organisations are honest, highly capable and talented individuals with a genuine desire to assist jobseekers in their efforts to get back into work, unfortunately I do not see these same characteristics in others in the most senior positions in these companies, whose interests, it would appear, are to serve only themselves, regardless of any unethical behaviour persisting around them.

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WORKING LINKS AUDIT COMMITTEE

19 JUNE 2008

SUMMARY REPORT OF THE HEAD OF INTERNAL AUDIT ON VARIOUS FRAUDS AND CONTROL ISSUES ARISING WITHIN THE COMPANY

1. INTRODUCTION

- 1.1 Following discussions regarding fraud and control issues arising within the Company, the Head of Internal Audit (HIA) was asked by the Group Director of Finance, Business and Implementation to produce an update report for discussion at the Executive Team on 16 May 2008.
- 1.2 The attached briefing note was forwarded by the HIA on 15 May 2008, and formed the basis of a report that the Group Director of Finance presented to the Working Links Executive Team on 16 May 2008.

2. SUMMARY

- 2.1 The report to the Executive Team is a factual report summarising a number of matters that have been reported to Internal Audit and investigated in the past 15 months (see details at Appendix A).
- 2.2 The estimated cost to the business of losses due to these irregularities is in excess of £250,000.
- 2.3 A number of issues are presented regarding these occurrences including trends in the type of fraud arising during this period and conclusions regarding the prevailing issues behind these matters.
- 2.4 Seven key recommendations are raised by the Head of Internal Audit with a view to taking action to deal with this situation in a robust and appropriate manner.

3. MANAGEMENT RESPONSE

- 3.1 The report itself generated positive discussion at the Executive Team regarding the issues involved and measures that should be undertaken in order to deal with these matters, prompting some immediate priorities including the drafting and implementation of an Ethical Code of Conduct for the Company.
- 3.2 The Chief Operating Officer, Brian Bell was asked to respond on behalf of the Executive Team, and his Management Response is documented within the attached report at pages 5 to 8.

4. RECOMMENDATION

- 4.1 The Audit Committee is requested to note and discuss the attached report and management response contained therein.

BRIEFING NOTE FOR CLIVE PITTS ON 15 MAY 2008

UPDATE REPORT FOR THE EXECUTIVE TEAM ON VARIOUS FRAUDS AND CONTROL ISSUES ETC ARISING WITHIN WORKING LINKS.

1. BACKGROUND

- 1.1 This note summarises the various frauds, irregularities and other control issues that have arisen in the past 15 months or so, highlights briefly the basic control problem in each case, quantifies where possible the volume involved or losses incurred by Working Links, and finally summarises the issues that need to be resolved in order to tighten internal controls across the company moving forward.

2. SUMMARY OF FRAUDS AND IRREGULARITIES ARISING

- 2.1 A number of frauds, irregularities and instances of malpractice have now come to internal audit's attention since February 2007. The details of each matter (investigations and allegations etc.) are summarised at Appendix A to this report.
- 2.2 It is quite difficult to calculate the overall level of repayment (or potential repayment) resulting from these frauds etc. but collectively the figure is in excess of £250,000 and of course this only includes those matters that have come to management's attention. In addition, there are other costs arising from these matters, not least the impact upon executive and operational management's time, and the diversion of internal audit from its primary focus on planned review work and assurance. More importantly, as the numbers of such matters increase and the Company expands, there is a significant risk of damage to the reputation of Working Links (WL) from such events.
- 2.3 A summary of the types of issues emerging from these investigations is as follows:
- Patterns of fraudulent activity that prevail throughout a variety of locations in the UK, including primarily the falsification of prime records on contracts undertaken by WL and the continued incidence of the malpractice of forging the signatures of Clients or Employers' representatives.
 - Extremely weak controls in respect of the operation of a number of contracts including poor accountability and ineffective management control.
 - The tendency of the performance-related bonus system to in many cases drive inappropriate behaviour including fraud and malpractice rather than the controlled and more ethical achievement of contractual performance.

A major review and overhaul of the operation of the bonus system may therefore prove beneficial.

- An absence in terms of regional or local mechanisms that allow management to obtain assurance regarding the effective management and control of these operations.
- A lack of supervisory or management checks that would, if present, highlight deficiencies in these processes and could also serve as a real deterrent to fraud and malpractice.
- A need to effect a positive change in the prevailing culture within WL so that the apparent acceptability of the manipulation of records is completely eradicated, and the certainty that disciplinary action will follow made abundantly clear to all individuals. This could be made more effective by making a more "public" example of the most serious wrongdoing, where this occurs within WL.
- A lack of understanding by various managers and staff involved in these contracts in relation to basic contractual obligations and adherence to key requirements.
- The over-reliance placed by management on contract compliance and internal audit, when the actual responsibility for the reliability and accuracy of control systems should rest with relevant management.
- A misunderstanding of the role of internal audit, which exists within the company in order to provide independent assurance to management on the robustness of internal controls, and to make cost effective recommendations for improvement to those systems. This does not, however, take away primary responsibility for control systems, which rests with company management.
- A need to ensure that independent checks are cemented within regional processes, including extended application of the business support model to all locations within WL.
- Control systems have not developed and been strengthened in line with the growth of the company, which has taken on many new areas and operations that bring with them increased risks to the organisation.
- A lack of clearly defined roles in some areas to ensure that responsibilities are clearly understood by all staff involved and that these are adhered to.

- A need for greater training and understanding of the main contracts within WL so that managers and staff are better placed to enable stronger controls to be applied to these operations.
- A need to provide basic fraud awareness to relevant staff to alert employees to the possibility of fraud and manipulation of records and signatures.
- The development of a more robust fraud response plan so that all frauds, irregularities and malpractice are dealt with in a timely and effective manner.

3. KEY RECOMMENDATIONS

The following key recommendations are raised by internal audit:

- 3.1 Actions should be taken to effect a positive change in the prevailing culture within Working Links so that the apparent acceptability of the practice of manipulating records is completely eradicated from operations, and the certainty that disciplinary action will follow is made clear. This could be further enhanced by publicising internally that where the more serious wrongdoing has occurred, this has been dealt with effectively.
- 3.2 The performance-related bonus system currently operated should be subject to review and if necessary overhauled so that a more structured and controlled process is adopted which encourages more ethical forms of behaviour in relation to contract activities.
- 3.3 Operational management should implement internal mechanisms including supervisory or management checks and improved accountability to ensure that adequate assurances are obtained on the operation of internal control systems and procedures.
- 3.4 The respective roles and responsibilities of management and internal audit in relation to controls should be clarified and understood. The responsibilities of managers and staff involved in the operation of contracts should similarly be clearly stated and adhered to.
- 3.5 Training should be arranged to ensure that all managers and staff understand the main contract requirements and that adherence to these requirements is tested by contract compliance.
- 3.6 Training in basic fraud awareness should be given to relevant staff so that employees are alerted to the possibility of fraud and the manipulation of records and signatures.
- 3.7 A more robust fraud response plan should be implemented so that all frauds, irregularities and malpractice are dealt with in a timely, effective and consistent manner.

4. MANAGEMENT RESPONSE SUBMITTED BY THE CHIEF OPERATING OFFICER

Prepared by Brian Bell – Chief Operating Officer

Introduction

As a starting point I want to highlight that I want to re-assure the Audit Committee and the Company Auditor that I and the people around me, the operating management team are taking the note prepared by Eddie Hutchinson very seriously.

Indeed I am working very closely with Eddie on a number of issues across the business, and I hope Eddie would agree that we are making good progress in terms of the specific projects, but also in relation to our mutual desire to eradicate, as far as we can, the practices highlighted within the report.

For the purposes of this note I have focussed on the key recommendations highlighted in paragraph 3 of Eddie's report. I also note that Appendix A highlights some of the specific instances of fraud and weak controls that have been or are being investigated. Some of these are closed investigations, and some of them are being carried out right now, I am in close contact with Eddie about each of these live investigations and it is my intention to respond to each as his reports are made available.

Response to Key Recommendations

- Paragraph 3.1 makes a recommendation about positive change and to support this we should ensure people understand the consequences of fraudulent activity and publicise those consequences.
 - I support the overall drive of this recommendation. We already have in place a clear policy on fraudulent activity, supported by our disciplinary policy and a whistle blowing policy. We have adhered to this very closely in the actions we have taken with recent fraudulent activities, and some people have lost their jobs as a result.
 - I also agree that we need to publicise the real consequences of fraud and I have personally addressed the issues at all of our regional management meetings over recent weeks.
 - I am not entirely sure how we should publicise some of these activities within the business, but I am talking to our Marketing and Publicity Director about how to get messages in a controlled fashion that doesn't create any form of scare-mongering.

- And on this final note, I am not at all clear that this is a 'prevailing culture'. I do believe that there is an industry wide challenge around some of these practices, and we could probably produce a lengthy document on how that has occurred, but I also believe that we are dealing with issues properly. My concern about using the phrase 'prevailing culture' is that this sort of label sticks on everybody, and I believe that the majority of our people are doing an excellent job, with honesty - we found work for over 12,000 people last year, and so I believe we need to take care with the terminology we use.
 - Nevertheless I fully agree with Eddie's clarity in terms of eradicating the problem, and a central plank of that will be the production of an Ethical Code of Conduct. Some of my colleagues on the Executive Team are currently working on this document, which we feel will support the behavioural elements we wish to promote throughout our organisation. This will be an over-arching code that will link in with other relevant HR and operational policies, and which will spell out the consequences of non-compliance with those policies. It is currently planned that a draft Ethical Code of Conduct will be ready for consideration at the Executive Team on 3 July 2008.
 - I also fully support the drive to be the "best in class" in terms of dealing with this challenge. We have been and will continue to be fully open with DWP on this matter, and only recently we received a letter back from the Department praising us on how we dealt with an issue we had in Hackney, that involved us repaying around £15k to the Department.
 - Eddie also raises a risk to our reputation in terms of newspaper interest in some of these activities. We are very alert to this risk, we believe that there are a number of ex-employees who have lost their jobs due to gross misconduct and have been talking to the press for some time. Our PR people have defensive briefs ready for this possibility.
- **Paragraph 3.2 recommends that we review the performance related bonus system.**
- It is well documented that bonus related payment systems can bring risks. We review our bonus system each year. The system for 08/09 is now in place, and it will be reviewed towards the end of the year.
 - I think the bonus system has served us well over the past year, and has driven an excellent year's performance.
 - Interestingly some of the cases highlighted in the report pre-date our bonus system which was introduced across the company in 07/08.
 - My view is that we should keep the bonus system for this year, and tighten the controls with the support of our audit team.

In addition I would like to include input from Eddie and his team when we review the current bonus system at the end of the year.

- **Paragraph 3.3 highlights the need to implement controls to enhance supervisory and management checks and controls.**
 - Our Quality Director, Johnnie Graham recently introduced a self assurance process whereby managers within our regions 'sign off' controls within the locality.
 - This is a relatively new process and over the coming weeks I will review the process with Johnnie and Eddie and make recommendations to tighten it up. My view is that the process is suitable to ensure that our contracts are compliant, but I would like to focus on how they can provide a check for fraud.
 - I will also focus on how it covers off some of our so-called smaller contracts, which Eddie has highlighted to me may be a weakness for us.
 - We have also introduced across the business our new model for providing administrative support to the business and for processing evidence. The model is based on the one introduced in Wales just under a year ago where the function is line managed through the Regional Accountants and therefore outside of the delivery arm of the business.
 - It is my belief that this is now preventing some of the activities highlighted within the report by identifying areas of concern, returning inappropriate evidence and generally policing our system – indeed only two weeks ago the new system in one location identified a falsified signature from a Performance Manager, the manager was suspended immediately and has now left the business.
- **Paragraph 3.4 recommends that we clarify roles between the operations and audit.**
 - I entirely agree, I think there has been a blurring of responsibilities and I am working closely with Eddie to get this right,
- **Paragraph 3.5 asks that we provide training for our managers on contract compliance.**
 - The self assurance process highlighted above will give us the data required to help us understand the level of knowledge on contracts in the business, and I am keen to examine this in light of Eddie's recommendation. As stated above I will meet with Eddie and Johnnie to review the assurance process and see if we have any gaps.

- **Paragraph 3.6 recommends that we carry out fraud awareness training.**
 - I agree with this recommendation.
 - I have agreed with Eddie that he will put together a training package that he will deliver to our senior managers at their meetings in the coming months.
 - Following these training sessions, we will ask managers to roll it out to their teams and then ensure that all people sign off to say that they have seen and understand our Anti-Fraud and Corruption Policy.
- **Paragraph 3.7 recommends that we implement a clear fraud response plan.**
 - We have a Fraud Policy and a Disciplinary Policy that cover how we deal with most of the issues that have been raised.
 - I do agree that there can be a blurring of responsibilities, and this may be inevitable depending on the scale of any alleged fraud, and indeed how it has been identified.
 - On this basis I would be very happy to review how we respond to incidents with Eddie and our HR function.

Summary

- I take the report prepared by Eddie very seriously and will work closely with him over the coming months to address the issues raised.
- It is my belief that we are working well together to address many of the concerns already raised.
- I believe we have a number of good practices in place that support our drive to eradicate fraud. Some of these have only recently been introduced such as Regional self assurance procedures and a new model to process evidence. I am keen to review these with Eddie and other appropriate senior managers to ensure they are operating as effectively as they can.
- I do not believe that we should overhaul our bonus system at this time. However, we do review it each year and I would like input from Eddie at the next review. I do agree however that care should be taken with bonus systems generally and that we should continue to improve our checks.
- I fully support the drive to heighten awareness across the business in a controlled way and am working with Eddie to roll out a training plan starting with our senior managers.
- There remains a risk of adverse publicity hitting the press, we are alert to it and our PR people have defensive briefs prepared.
- We need to take care in the language we use when dealing with this matter. The majority of our people do an excellent job and behave with integrity.

SUMMARY OF FRAUDS AND IRREGULARITIES ARISING

1. Brighton (Feb 2007)

A Consultant employed at the Brighton office had fraudulently arranged payments to a landlord using WL funds. The employee left the company, the matter was placed in the hands of the Police, and the individual received a Community Service Order. Internal audit had no involvement in this investigation or knowledge of the losses involved. This matter is currently the subject of further allegations including media interest in WL.

2. Investigation of P2W contract in South Wales (Feb 2007)

Failings in relation to the control of this contract led to the DWP requesting that WL should repay around £45,000. After further examination and challenging these claims, and reconciling the amounts overpaid, ultimately some £32,000 was repaid to the DWP.

3. Investigation of the EZ LP Contract in North Wales (Aug 2007)

Malpractices identified in this contract included the inflation of CE Claims and the falsification of records through the block signing of jobseekers' signatures by some WL staff.

Following the dismissal of a Consultant who forged signatures on CE Claims in order to submit claims on time, an audit was conducted of EZ Lone Parent Continuous Engagement Claims. The aim of the audit was determine whether other Consultants had engaged in this practice.

The audit established that the falsification of records on this contract in order to meet performance targets required under the EZ contract was fairly widespread, linked to pressure from local management to undertake this together with allegations of a bullying culture within this location.

The dismissed employee later wrote to the Managing Director, accepting that she had committed wrongdoing under pressure to do so, but highlighted that she was not the only employee who had engaged in this practices, which she stated was fairly endemic.

The matters arising from this investigation, and a wider review of the prevailing organisational culture in Wales, led to subsequent criticism regarding the effectiveness of the management regime and the adoption of revised working practices.

4. Brent Personal Job Account (PJA) Payments Fraud (Aug 2007)

A routine examination of a payments run by a Finance Officer at the Shared Service Centre (SSC) in Middlesbrough highlighted irregularities in payments made to a Jobseeker. A subsequent investigation identified a total of around £9,500 in fraudulent payments to 3 unknown persons by an Administrator employed at the Brent office of WL, including payments of £3,500 to the son of that employee.

The audit investigation highlighted the lack of documentation to support changes to bank account details for Jobseekers and total absence of supervisory or management checks on the activities of the Administrator involved. Further shortcomings concerned the difficulties involved in identifying changes to bank account details input to the computerised system.

A management response to the investigation report suggested that internal audit should undertake a random programme of sample checks on Jobseeker payments.

5. Glasgow Progress to Work (P2W) Investigation (Nov 2007)

This alleged fraud came to light after a visit by the DWP's Risk and Assurance Division to the Glasgow office to interview 2 of our Consultants, who they cautioned on the day of their visit.

An internal audit investigation by WL revealed that the 2 Consultants had been completing parts of the SL2 form (Starter / Leaver Notification) that should only be completed by Jobcentre Plus (JCP) Advisers. Whilst internal audit held strong suspicions regarding similarities between handwriting and signatures on various documents, we were unable to confirm conclusively that these employees had falsified Jobseekers' signatures.

The DWP reclaimed £42,000 as a result of their own investigation of the P2W contract, a loss that is significant in the context of a capped P2W contract of only £124,000 in total. Further issues included the strong possibility of damage to WL's reputation, a general factor that applies to a number of frauds and irregularities that continue to arise. Our internal audit investigation identified a number of issues including weak management control, under-utilisation of the 2 Consultants involves, the double claiming of outcomes on EZ and P2W, the practice of "creating our own outcomes" on P2W, inadequate financial control and very poor (and in some instances non-existent) records.

6. Birmingham Purchasing Letters Fraud (Jan 2008)

When this fraud originally came to light it concerned goods totalling around £1,000 obtained by deception from branches of Currys / Dixons, closely followed by goods obtained from a further location.

A further 6 thefts emerged involving theft from various stores of the Arcadia Group (Top Shop, Evans and Dorothy Perkins), taking the total loss to WL from all 9 thefts to about £2,000. This now stands at £3,000 and it is quite likely that further fraudulent purchases may emerge.

The perpetrator (or perpetrators) of this fraud is unknown although suspicions have been raised about the possibility of a former Consultant having carried this out. The fraud has resulted from someone gaining access to letter headed WL stationery. Despite being systematic fraud, it was impossible to obtain a co-ordinated approach from Birmingham Police who have now closed their file on this matter, but it could be progressed via our external consultants, Tait Walker (TW). The use of purchasing letters has now been abandoned by WL.

7. Hackney office Taxi Fraud etc. (referred to internal audit by CP on 30 Jan 2008)

This matter had been the subject of a "fraud investigation" by local operational management, who had dealt with this matter for several months without any internal audit involvement or knowledge.

An employee who had been off sick from the end of December 2007 had masqueraded as another manager from that office and used a WL contract with a local taxi company to pay for several taxi journeys for personal use. One invoice totalled £375.11 from the taxi company.

In addition to this fraud, it was subsequently found that the employee had also falsified "evidence stencils" to erroneously show that Jobseekers had started work, when in reality they had not.

After failing to attend a formal meeting in February 2008 the employee was summarily dismissed from his employment.

8. Further Fraud at Hackney relating to the PSLND contract (March 2008)

An extensive investigation of files regarding the PSLND contract identified a number of cases in which irregularities existed, involving primarily the use of false business cards and forged signatures as supporting evidence. Whilst concerns were originally raised in respect of files involving a number of WL Consultants, a further investigation by TW has confirmed that fraudulent activity has been perpetrated by only one Consultant. The extent of this malpractice from the evidence assembled is that probably around £20,000 will need to be repaid by WL.

TW have conducted an investigative review on Hackney that included the obtaining of several records and witness statements (from WL employees, businesses and also Jobseekers).

The TW investigation has concluded that there is evidence to show that the particular Consultant has committed fraud in relation to a number of Jobseeker files. The manager leading the investigation, Frank Nesbitt, who has expert witness status for these types of cases, has prepared a file of evidence and he urges that this should be handed to law enforcement for their attention and follow-up investigations.

TW have stated in their report that this would bring the individual concerned to the courts for his criminal actions and also send out a clear message to all WL Consultants that other similar acts will not be tolerated.

Whilst criticism of WL management falls outside TW's remit in this review, it is nonetheless suggested that more stringent controls and role definition should be applied throughout contractual obligations on contracts involving governmental finance.

9. Previous Fraud in Hackney (2007)

It is also of concern that the above-mentioned investigation has highlighted that a previous locally led internal investigation, covering similar concerns to those detailed above, had been undertaken about a year earlier. Internal audit has identified that these matters were not brought to a conclusion by regional management.

10. Deprived Area Funding (DAF) contract in Glasgow (March 2008)

An internal audit examination in Glasgow has highlighted extremely weak control procedures regarding the DAF contract that was operated up to the end of March 2008, including a lack of accountability, a complete absence of managerial checks, several concerns regarding the reliability of job evidence, and the appropriateness of spend on this contract. Internal audit have also identified a number of instances of inconsistencies regarding Client signatures on contractual paperwork, with similar patterns emerging to the previous investigation of the P2W contract in this location.

Whilst it is difficult to be precise at this stage, our review would suggest that repayments of around £150,000 may be required on a contract valued at over £1million. Despite this value, this contract had been perceived locally as a "small contract".

11. EZ Contract in Scotland (March 2008)

A review of the EZ contract records in Glasgow has revealed similar problems in relation to Client signatures and the reliability of job evidence. Whilst the extent of this may not be as significant as the DAF contract, it could potentially involve a sizeable repayment to the DWP.

Furthermore, allegations emerged about potential fraudulent activity involving the use of employer stamps by WL employees in order to forge job evidence records. Internal audit could not corroborate these allegations but we did confirm that procedures regarding the procuring and despatch of these stamps were quite lax.

In addition to the above concerns, the DWP's Risk Assurance Division has received allegations of "illegal" advice given by WL staff concerning self-employed clients. Internal audit are liaising with regional management on this matter.

12. Allegations of fraud in relation to Birmingham (March 2008)

Other allegations have been raised in relation to the alteration of dates on paperwork and the forging of signatures on records.

13. Allegations regarding fraud and malpractice at Brighton (March 2008)

An investigation is presently being undertaken regarding allegations of fraud made by a former employee from the Brighton office. TW will be assisting internal audit with this investigation. This matter has been the subject of media attention from a local newspaper reporter in Brighton. Further attention was drawn recently to issues in Brighton by email following the departure of a WL union representative.

14. Further allegations concerning the Brighton office (May 2008)

Apparently, other problems have been alleged via newspaper reporters (including the Sun) regarding documentation relating to an employee that left WL's employment over a year ago.

15. Potential Fraud on the NDDP contract in Haringay (May 2008)

On 13 May 2008, HR staff at the SSC in Middlesbrough received a communication from the Parkhill Audit Agency in London regarding the apparent forging of signatures on a Job Entry Statement of Employment forwarded to the Eastman Dental Hospital in London.

The Parkhill Audit Agency is a Local Counter Fraud Agency attached to the University College London Hospitals NHS Foundation Trust. The manager from that agency is enquiring about the obtaining of services by deception under Section 1 of the Theft Act 1978, and investigating allegations of using a false instrument under Section 3 of the Forgery and Counterfeiting Act of 1981.

Internal audit are currently investigating this allegation in conjunction with regional management in London.